

GAINS IN TRADE, EXPRESSED IN DOLLARS, WHICH MIGHT FOLLOW FROM THE
VIRTUAL ELIMINATION OF ALL CONTROLS ON TRADE WITH THE BLOC

The elimination of trade controls against the Soviet Bloc for all commodities, except arms and atomic energy materials, might result in an annual increase of Free World exports to the Bloc of as much as \$350 million. About \$150 million of this increase would result from the relaxation of the differential controls against China. However, if the United States maintained its unilateral controls, the increase in trade attributable solely to the differential China controls would be in the neighborhood of \$60 million assuming there were no significant extension of Western long-term credits.

The increased trade resulting from the elimination of virtually all controls, though amounting to about 15 percent of the present level of Free World exports to the Soviet Bloc, would be very small in relation to total Free World trade. Such an increase is too small to be of significant economic benefit to the Free World as a whole; although to a number of business firms, particularly in Japan, this improvement in trade would be important.

Since the imposition of trade controls, the Soviet Bloc has continued to develop a rapidly expanding capability to export many commodities in categories similar to those being controlled by the Free World. While Bloc imports of industrial equipment, chemicals and petroleum products remained relatively constant during 1953-56, Bloc exports of such goods have increased very substantially during the same period from a low initial level. Although Bloc trade with the West is relatively small, the Bloc has a rich natural resource base comparable to that of other major industrial states and it is now supplying some of the industrial requirements of Western countries.

The elimination of virtually all trade controls would probably lead to some increase in total Bloc purchases, particularly of certain metals, ships, electronics and other complex industrial equipment. Bloc demand for such complex industrial equipment would be confined to relatively few categories since most of it is not included in the relatively narrow range now effectively embargoed by the West.

The relative self-sufficiency of the Bloc's economy is the result of years of Soviet policy directed toward autarky stimulated to some extent by over five years of Western trade controls. If the Bloc chose to revise this policy, it could generate and pay for an increase in imports from the West of as much as one billion dollars annually without adverse and possibly with beneficial effect on the Bloc's other long-range economic plans. Such a change in policy could be adopted by the Bloc within the pattern of present Free World trade controls. However, it is not considered likely that the Bloc would in fact change its policy of limited trade with the Free World even if virtually all trade controls were eliminated, except possibly as it might find it desirable to do so for political reasons.

30 January 1956